MONTGOMERY COUNTY COUNCIL
ROCKVILLE, MARYLAND

ROGER BERLINER
COUNCILMEMBER
DISTRICT 1

CHAIRMAN
TRANSPORTATION, INFRASTRUCTURE
ENERGY & ENVIRONMENT COMMITTEE

July 8, 2013

Dear Colleagues,

When the Chevy Chase Lake Sector Plan comes before the Council tomorrow, I will offer an amendment to limit the height on the shopping center site in Phase 1 to 90 feet, consistent with the original Planning Board staff draft. Here's why:

- The original staff draft was met with wide community support. The community felt that the staff draft fairly harmonized the desire for more development and better public amenities with the residential character of the neighborhood. It remains the choice of the community based on the communications I have received.

- I had been told that this option was not "economically feasible." However, regrettably, neither the planning staff nor the Planning Board did an economic analysis of what is feasible at this site. Accordingly, I requested our own Council staff economist, Jacob Sesker, who had previously performed this function for the Planning Board, to do so. His analysis is attached along with my original request.

- The bottom line of our staff's analysis is that an *integrated* mixed use project of 90 feet – with the retail and amenities the community desires plus underground parking – is economically feasible.

- The height of 120 to 130 feet is economically more desirable because of the current business arrangement that contemplates treating the residential portion of the project on a stand-alone basis, which is less profitable than the retail portion. As Mr. Sesker argues, "feasibility of developing the B-1 block at 90' or 120' from a public policy perspective *should be based on the overall return of the project* based on height and density decisions within the Council's control, *rather than being driven by the configuration of the development team* or the developer's planned timing of buildings with the B block."

- The economics of 90 versus 120 feet is also being driven by the desire of the developer to recover 100% of the Adequate Public Facility related costs on this one parcel as opposed to spread out over all new development in Phase 1 on the shopping center site. Our staff does not believe that this approach is an appropriate basis for our Council to determine economic viability.

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- It is also argued that 120 or 130 feet provides more housing and we should be maximizing our housing opportunities near transit. I understand that argument. I am a strong supporter of smart growth and transit oriented development as evidenced by my work and support of the White Flint plan and the Purple Line among other projects. The reality is that we are in fact adding substantial housing here -- an estimated 1450 new units. The fundamental issue is whether the marginal loss in additional housing from reducing the height on this one parcel from 120 to 90 – approximately 50-75 units -- less than 100 -- is more important than maintaining the integrity and character of the surrounding neighborhood.

I wish that these issues had been fleshed out earlier. In my view, we should not accept a plan from the Planning Board in the future that does not contain sufficient economic analysis where it is so central to the decisions we must make. Nonetheless, Mr. Sesker has worked extremely hard over the course of the last week to provide us with an independent analysis. At this late juncture, I am personally comfortable that a 90 foot ceiling satisfies the community, provides significantly more housing, and is an economically viable project.

To: Councilmember Roger Berliner
From: Jacob Sesker, Senior Legislative Analyst
Re.: Chevy Chase Lake Shopping Center (Block B-1)
July 7, 2013

Introduction

Councilmember Berliner requested an analysis of economic feasibility of developing the Chevy Chase Land Company's "B-1" block at 120' and 90'.

Summary of findings

- The project as a whole is feasible at both 120' and 90'.
- At either height, the yield on development costs for the residential portion alone does not meet or exceed the target yield of 6.75%. This will make the residential portion of the project less attractive to the current residential development partner.[1]
- The project as a whole produces residual land value that justifies redevelopment of the existing improvements at either 120' or 90'. At both heights this residual value is driven almost entirely by the in-line retail and grocery portions of the project.
- At 120' the project generates $17.8 million in residual land value. At 90' the project generates $16.0 million in residual land value.
- Residential at 90' produces negative residual land value.
- At 120' the project generates approximately $9.4 million that could be used to pay for public benefits or costs not internalized in the land costs. At 90' the project generates approximately $10 million that can be used to pay for public benefits or to pay costs that have not been internalized in the value of the land. For example: to cover the costs of the town square (~$2.0 million), streetscape improvements (~$1.2 million), and compliance with new storm water management regulations (~$2.5 million).
- Feasibility of developing the B-1 block at 90' or 120' from a public policy perspective should be based on the overall return of the project based on height and density decisions within the Council's control, rather than being driven by the configuration of the development team or the developer's planned timing of buildings within the B block.

[1] The target yield of 6.75% reflects a conservative approach to the risk associated with this project. A lower target yield requirement by the current residential partner (of 6.25% to 6.50%) would result in more residual value for land and public benefits.

Comparison of 120' and 90'

Development Program		120'	90'
Construction		Type I	Type I
Residential sq ft		243,000	162,000
Dwelling units		223	149
In-Line Retail sq ft		32,000	32,000
Grocery sq ft		54,000	54,000
Development Costs (incl. parking)		120'	90'
Residential		$69,661,195	$46,446,066
In-Line Retail		$11,635,200	$11,635,200
Grocery		$16,934,400	$16,934,400
Total		*$98,230,795*	*$75,015,666*
Average cost/gsf		*$299*	*$302*
Net operating income		120'	90'
Residential		$4,431,564	$2,891,634
In-line retail		$1,484,800	$1,484,800
Grocery		$1,566,000	$1,566,000
Total		*$7,482,364*	*$5,942,434*
Target NOI		120'	*90'*
Residential		$4,702,131	$3,135,109
In-line retail		$872,640	$872,640
Grocery		$1,312,416	$1,312,416
Total		*$6,887,187*	*$5,320,165*
Metrics		120'	90'
Development yield		*7.62%*	*7.92%*
Residential value	5.00%	$88,631,278	$57,832,674
In-line retail value	5.75%	$25,822,609	$25,822,609
Grocery value	6.00%	$26,100,000	$26,100,000
Total value		*$140,553,887*	*$109,755,283*
Return on cost		*43.09%*	*46.31%*
Residual value	*25.00%*	*$17,765,393*	*$15,985,701*
Amount available for land & public benefit costs		$9,461,326	$10,003,147
Amount available for land only		$8,304,067	$5,982,554

Note

This analysis does not examine the feasibility of development if the product is changed to use a cheaper construction type and replacing underground parking with above-grade parking. Such an alternative would result in more residential value and less non-residential value.

General Approach

The first step of this analysis compares the revenue generated by the improvements to the cost of building those improvements (excluding land). If the revenue generated by the improvements achieves or exceeds the return thresholds (generally between 6% and 9% yield on non-land cost[1], depending on the land use and market conditions) then the project may be economically feasible on paper.

Cap rate and development yield by land use

Chevy Chase Lake (Phase I)

	Cap rate	Yield
Office	7.25%	9.00%
In-Line Retail	5.75%	7.50%
Grocery	6.00%	7.75%
Residential-Apartments	5.00%	6.75%

Remember that the yield is the return on *non-land costs*. It is of course possible for a project to meet or exceed its target yields and still not be a feasible redevelopment project. Such a project is most likely to proceed in the near term[2] only if acquisition of the land or re-use of the land has no cost (for example, if the land is producing no income).

The second step of this analysis is to compare the residual land value across scenarios. Residual land value is the difference between the value of the net revenue stream that will be generated by the improvements and the cost of those improvements plus a return to the developer. The residual is an amount of money that is available for land, and land-related costs (including public benefits) that have not been internalized in the land value (for example, new storm water regulations or master plan recommended public facilities).

Also, this analysis includes some discussion of the amount of money generated in each scenario for that could be used to pay for either public benefits or costs that have not been internalized in land values (are atypical, unique, or new). It is assumed that a project where the yield on development costs is equal to the target yields will generate no money that is available for public benefits or other non-internalized costs. If the yields exceed the targets, that difference may be available for public benefits or non-internalized costs.

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[1] Staff typically assumes that development yield will be 150-200 basis points above the prevailing cap rate-in this study a spread of 175 basis points was used for each land use.

[2] This highlights a key issue with examining the feasibility of development in the context of a master plan. Master plans are long term plans for a community. In some master plans, the timing of development is important—for example, in some master plans the purpose is to catalyze development in an area in which development is otherwise not economically feasible. In such a case, whether or not redevelopment is feasible today is relevant to the central public policy issue the master plan seeks to address. In many other master plans, the timing of development is not important—the master plan simply establishes a framework for change in the community and that change will occur when it occurs.

Background

The development program on Chevy Chase Land Company's "B-1 Block" will include approximately 54,000 square feet of grocery (some underground), approximately 32,000 square feet of high-end in-line retail, and approximately 220-250 dwelling units.[3] The Chevy Chase Land Company intends to pair with a residential developer who would develop the apartments as part of a separate condominium from the grocery and in-line retail at the shopping center site.

The boundaries of the B-1 block more or less correspond to three properties of approximately 88,000 square feet of net lot area (123,000 square feet of gross tract area) and an assessed value of just over $7 million.

The B-1 block is part of a larger redevelopment of the Chevy Chase Shopping Center site (total site net lot area of 6.33 acres), which is adjacent to the Purple Line. An existing adequate public facility approval potentially could be converted and used for the planned development on both B-1 and B-2. Conditions of the approval include the addition of a turn lane for traffic turning from Manor onto Connecticut Avenue, signalization improvements, and a fee (total cost of about $2.2 million).

The Chevy Chase Land Company also owns the 8401 Connecticut Avenue site on the other side of the future Purple Line tracks—that building is a 150' tall office building with approximately 160,000 net leasable square feet of office space (approximately $29/sf full service).

- Part 1: Development yields
- Part 2. Residual land values
- Part 3: Value that the developer could use for public benefits, costs not internal to land values
- Attachments:

  General observations about economics of height © 1
  Pro forma analyses © 3
  Bozzuto Development Company Schematic Product and Construction Types © 7
  Cap Rates © 8

[3] The Chevy Chase Land Company assumes approximately 250 units in 270,000 gross square feet at a building height of 130'. This analysis tests the PHED Committee recommended 120' and the Planning Staff's 90'. It is assumed that at 130' the building would be Type I construction with 10 floors of residential above one floor of retail with podium height of 20'. A reduction in height to 120' results in a 10% decrease in gross floor area of residential. A reduction to 90' results in 7 stories of residential with podium height of 20' but no change in construction type.

Part 1: Development yields

Development costs, by land use					
		per gross sf	*target yield*	*equals NOI/gsf of...*	*rent at target yield /4*
Residential					
	Hard costs/1	$185			
	Soft costs/2	$65			
	Parking costs/3	$37			
	Total	***$287***	***6.75%***	***$19.38***	***$2.98***
In-line retail					
	Hard costs/1	$110			
	Soft costs/2	$67			
	Tenant improvements	$75			
	Parking costs/3	$112			
	Total	***$364***	***7.50%***	***$27.27***	***$31.86***
Grocery					
	Hard costs/1	$110			
	Soft costs/2	$67			
	Tenant improvements	$25			
	Parking costs/3	$112			
	Total	***$314***	***7.75%***	***$24.30***	***$27.30***

/1 Hard costs include construction, accessory structures, amenities, and site improvements
2 Soft costs include A& E, entitlement costs, recordation, construction interest, permits, builder fees
3 Parking costs assume 1.5 spaces per market rate d/u, 1.0 space per MPDU, 4 per 1000 for non-res
4 Rent necessary to achieve target NOI including vacancy loss and non-reimbursables (per mo for res.)

The target yield is the yield on non-land development costs, as calculated by dividing net operating costs by development costs. For example, the residential portion of the project should generate net operating income at stabilization that is 6.75% of the development costs associated with the residential portion of the project. For this analysis, the development costs exclude the costs of APF compliance and master planned improvements such as the town square. Those costs are addressed in the third section of this memo.

Generally, cap rates for Class A Multifamily across the region have been low, and in Montgomery County have been in the range of 4.25% to 5.00% for Class A stabilized properties. A cap rate of 5.00% is assumed for this analysis (target yield on development costs of 6.75%).

This 6.75% yield does not include any land cost, or any money for master plan related public benefits. In order to achieve a 6.75% yield on costs, the project would need to achieve average rents of $2,761 (or $2.99/rentable square foot per month) on the market rate units. This is true at either 120' or 90', assuming that Type I construction would be used in either scenario.[4]

[4] If the developer chose instead to build a wood structure at a height well below the height limit, achievable residential rents would drop somewhat and construction costs would drop more, making the residential portion more

Residential rents are unlikely to achieve the $2.99 necessary to hit target yields in the 120' scenario ($3.00 in the 90' scenario). While this does not indicate that the project as a whole will not move forward, it does indicate that it is likely that the non-residential portion of the project will need to subsidize the residential portion of the project.

Residential comps				
		rent	nsf	$/nsf/mo
Bethesda	1BR+	$2,630	953	$2.76
Bethesda	1 BR+	$2,221	1,048	$2.12
Bethesda	1 BR	$1,884	841	$2.24
Grosvenor	1 BR+	$2,069	984	$2.10
Bethesda CBD	1 BR+	$3,642	1079	$3.37
Friendship Heights CBD	1 BR+	$2,803	852	$3.29
North Cleveland Park	1 BR+/2BA	$2,675	932	$2.87
North Cleveland Park	2BR/1BA	$2,485	926	$2.68
Silver Spring CBD	1 BR+	$2,200	978	$2.25
Chevy Chase	1 BR	$2,085	1,000	$2.09

This brief review of comparable apartments on the market indicates a more likely range for rents in the $2.75 to $2.85 range, below the $2.99 (average of $2,764 per market rate unit per month) that would be necessary in order to achieve target yields of 6.75% on costs of $287 per gross square foot.

Weighting most heavily the rents in North Cleveland Park and Bethesda, a reasonable rent assumption is $2.85 (or $2,636 per market rate unit per month). Of course, rents today will not reflect any value associated with proximity to the future Purple Line.

Presumably the Chevy Chase Land Company would accept a lower return at the stabilization of this Phase I piece given their long term interest in developing in Chevy Chase Lake, the property's location adjacent to a future Purple Line stop, and because the long-range vision for this property includes a supermarket, space for retail and public uses, and below-grade parking facilitating commerce and a variety of at-grade activities.

In contrast to the residential portion of the project, both the in-line retail and grocery anchor are likely to achieve yields well in excess of their targets of 7.50% and 7.75% respectively.

Cap rates for Class A retail in the DC area range from 5.50% to 6.50%, with high end retail enjoying lower cap rates and a tighter range. A 7.50% yield is assumed for this analysis, which is typical for retail development in this region.

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positive. On the other hand, this could also result in a large decrease in non-residential square footage, non-residential rents and a changed tenant mix.

In order to achieve a 7.50% yield, this project would need to support in-line retail rents of $31.86 per square foot (NNN). While that rent is above the countywide average for NNN retail rent (about $25), it is well below what could be achieved in this location.

Retail comps	
5225 River Road (Kenwood Station)	$60/nnn
10101 River Road (Potomac Place)	$57.16/nnn
1701 Rockville Pike (Congressional Village)	$45/nnn
7817 Tuckerman (Cabin John Shopping Center)	$46.60/nnn
5350 Westbard	$55/nnn
5471 Wisconsin	$45/nnn
7008-7034 Wisconsin	$48.94/nnn

A reasonable assumption is that retail rents could achieve $52 triple net in this location. Any significant reduction in the number of units could place downward pressure on rents. Stick-built residential over retail development with above-grade parking would likely command rents more comparable to Rockville Town Square ($35-$40 NNN) and less comparable to Bethesda, Potomac or Friendship Heights. This in turn would place significant pressure on the entire project, since so much of the value comes from the retail. Similarly, above-grade parking would compete with retail for limited street-level square footage, and ultimately would result in a reduction in the retail component of the development program.

The grocery should also have little difficulty achieving its target yield of 7.75%, given its location on the northbound side of Connecticut Avenue, established base of customers, and access to surrounding residential neighborhoods. Grocery rents of $32 (NNN) would achieve a development yield of 9.25%.

Development yields, by land use					
	target yield	*equals NOI/gsf of...*	*rent at target yield /1*	*assumed rents*	*yield at assumed rents*
Residential	***6.75%***	***$19.38***	***$2.98***	***$2.85***	***6.35%***
In-line retail	***7.50%***	***$27.27***	***$31.86***	***$52***	***12.76%***
Grocery	***7.75%***	***$24.30***	***$27.30***	***$32***	***9.25%***

/1 Rent necessary to achieve target NOI including vacancy loss and non-reimbursables such as common area maintenance (rent is per mo for res.)

For residential at 90', yields fall to 6.20%, farther below the target yield of 6.75%.[5]

[5] Yields could be further reduced if a reduction in the number of units led to an increase in operating costs per unit.

In the 120' scenario the three land uses generate NOI that is approximately 7.6% of costs, above the weighted average target yield of 7.00%. **This indicates that the entire project is feasible at 120'.** In the 90' scenario, the three land uses together generate NOI that is 7.9% of costs, above the weighted average target yield of 7.1%. **Again, this indicates that the entire project is feasible at 90'.** However, if the Land Company seeks to pair with a residential developer for the residential portion, that residential developer will need to be willing to accept less than 6.75% on costs, or may seek to contribute less to shared project costs.

While the residential portion of the project on its own would likely fail to achieve its target development yield, the project as a whole is economically feasible, given the yields on the retail and grocery portions of the project.

Part 2: Residual Land Values

Development yields address whether the return on the improvements is sufficient to justify an investment in the improvements. Residual land value analysis addresses whether the improvements generate enough value to justify either acquisition of land or the opportunity cost associated with interrupting a current revenue stream.

The residual land value is typically calculated as being the difference between the capitalized value of the improvements and the costs, plus a hurdle of 20% to 25%--put differently, the analysis assumes that 25% of the value created goes to the developer, and the rest is potentially available for land. Assuming a hurdle rate of 25%, the project at 120' generates a land residual of $17.6 million.

At 90' the project generates about $1.6 million less for land. That value generated by the residential portion of the project is wiped out when height is reduced from 120' to 90'—in fact, the residential portion of the project generates negative land value at 90'.

Residual land values, by land use, 120'

	residual value per gsf	*gross square feet*	*residual land value*
Residential			
In-line retail	$6	243,000	$1,438,696
Grocery	$352.46	32,000	$11,278,609
	$91.33	54,000	$4,932,000
Total			***$17,649,305***

The project at 120' generates more than $17.6 million that can go to land, well in excess of the value of the current income stream from existing improvements.

Residual land values, by land use, 90'			
	residual value per gsf	*gross square feet*	*residual land value*
Residential	($1)	162,000	($172,252)
In-line retail	$352.46	32,000	$11,278,609
Grocery	$91.33	54,000	$4,932,000
Total			***$16,038,356***

In either case, the value created by the entire project is more than the value of the land in its current use. That value is reflected in a current assessment (based on the capitalized income approach) of just over $7 million for the three properties that make up the B-1 block.[6]

Under either scenario, the improvements would generate more residual land value than the current assessed value of the improvements. However, almost all of that value would be generated by the retail and grocery components of the project.

Part 3: Value that the developer could use for public benefits, costs not internal to land values

A developer will seek to achieve target yields. When actual yields equal target yields, there is no money left over for additional public benefits or costs that have not been internalized in the land value (such as the costs of new regulations). When actual development yields exceed those targets, there is surplus value that the project can draw upon without negatively affecting the feasibility of the redevelopment project. That surplus is a subset of the residual value.

A partial list of such costs in Chevy Chase Lake might include: the State's new storm water management rules (~$2.5 million), a town square ($2.0 million) and streetscape improvements (~$1.2 million). Based on a review of project pro formas, the costs of certain APF required improvements are also embedded in the Chevy Chase Land Company's project financials.[7]

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[6] Other recent land transactions for residential development opportunities indicate a value of approximately $45,000 per market rate unit (in the 120' scenario this would translate to 195x$45,000=$8,775,000).

[7] Those costs include $1.2 million for signalization and turn lane, and $1 million in APF payment which are required as condition of the APF approval for the entire B block, and thus should be spread across the entire B block development program.

Value that could be used for public benefits or costs not internal to land value, by land use						
		target yield	actual yield	*residual value per gsf*	*gross square feet*	*residual land value*
120'	Residential	6.75%	6.35%	($23)	243,000	($5,536,710)
	In-line retail	7.50%	12.76%	$332.70	32000	$10,646,261
	Grocery	7.75%	9.25%	$78.27	54000	$4,226,400
	Total					***$9,335,951***
90'	Residential	6.75%	6.23%	($30)	162,000	($4,812,646)
	In-line retail	7.50%	12.76%	$332.70	32,000	$10,646,261
	Grocery	7.75%	9.25%	$78.27	54,000	$4,226,400
	Total					***$10,060,014***
Break even	Residential	6.75%	6.75%	$0	243,000	$0
	In-line retail	7.50%	7.50%	$0	32,000	$0
	Grocery	7.75%	7.75%	$0	54,000	$0
	Total					***$0***

Because the 90' scenario actually has fewer residential units failing to meet target yields, there is more money that can be used for public benefits in the 90' scenario than in the 120' scenario.

At either 120' or 90' the project generates enough value to justify the costs of land and any public benefits (e.g. a town square), and any costs not internal to land values (e.g. storm water management).

General observations about economics of height

Residential construction—characteristics at various building heights

1. 65': Five stories total (four story wood frame over concrete podium)
2. 75': Six stories total (Type III frame with five stories over concrete podium)
    a. Cost is frequently $ $15/gsf to $20/gsf higher than the cost at 65'
    b. Lifts and tower cranes typically used for any project taller than 60'
3. 85': Seven stories total (Concrete structure or steel frame over concrete podium)
    a. Too tall for Type III construction (Type II or Type I)
    b. Going from 75' to 85' is a significant increase in construction costs/unit
    c. Labor costs increase due to higher wages for steel/concrete work
4. 100': Eight stories total (Concrete structure or steel frame over concrete podium)
    a. Life safety requirements (e.g., additional stair access) tend to increase, adding $20-$30/gsf
    b. Going from 85' to 100' is another significant increase in construction costs/unit)
5. 120': Ten stories total (Concrete structure or steel frame over concrete podium)
6. 140': Thirteen stories total (Concrete structure, Type I)
    a. Construction costs per unit are flat or from 120' to 140'
    b. Most projects that are not already utilizing underground parking will do so once the height gets to 12 stories

An index of per gross square foot construction costs[8] by construction type illustrates how costs increase as building height increases from 5 stories (Type III) upward.

Construction types/ cost index	
Type IIIB	1.00
Type IIIA	1.03
Type IIB	1.14
Type IIA	1.20
Type IB	1.24
Type IA	1.30

For a brief explanation of construction types, see © __.

However, whenever increased density requires the project to go from above ground to underground parking, then that shift will be reflected in a jump in project costs. Frequently, apartment projects do not generate enough value to justify underground parking (condo projects often can support the cost of underground parking, apartment projects less frequently). Apartment projects that can support the cost of underground parking tend to be able to market in spite of low parking ratios, take advantage of shared parking opportunities, or are part of mixed-use project in which the other uses are generating substantial value.

[8] Hard costs directly related to construction. This does not include soft costs, such as architecture and engineering, legal and entitlement costs, financing costs, builder fees. This also does not include some costs frequently grouped with hard costs, including site costs, amenities such as swimming pools, accessory structures, parking, etc.

Residential rents do increase somewhat with balconies and with better views. The view premium is typically lower for residential buildings than it is for office buildings (where floors above 100' frequently command rent premiums of 10% or more). A modest balcony premium accrues to units with balconies (typically starting somewhere at or above the 3rd floor) and view premiums of 2% to 4% for floors above the 5th floor are common. Of course, units in mid-rise buildings are competing in the market place with other units, both those that were not built recently and those that were built recently but at lower costs.

Frequently, mid-rise projects are said to have all of the costs of high-rise and none of the benefits, i.e. construction costs and parking costs are high, and rent premiums and operating efficiencies do not cover the delta in costs. As such, mid-rise projects tend to be most feasible in locations where rents are high and where parking ratios are low. In the absence of both of those conditions, mid-rise is challenging.

High-rise Residential 120' (9 stories residential, 20' podium), Underground Parking

Development Program	Actual		Threshold
Gross sq ft residential	243,000		243,000
Net sq ft per unit	925		925
Efficiency ratio	85%		85%
Gross sq ft per unit	1,088		1,088
Total units	223		223
Market rate units	195		195
MPDU	28		28
Parking ratio market	1.5		1.5
Parking ratio MPDU	1		1
Parking spaces	320		320
Parking cost/space	$28,000		$28,000
Parking cost/unit	$40,179		$40,179
Parking cost/net sq ft	$43		$43
Parking cost/gross sq ft	$37		$37
Hard costs (excl. parking)/gsf	$185		$185
Soft costs /gsf	$65		$65
Soft costs as % hard	35%		35%
Parking costs/gsf	$37		$37
Total development costs/gsf	$287		$287
Total development costs/unit	$312,382		$312,382
MPDU rent/unit/mo	$1,305		$1,305
MPDU vacancy/loss	0%		0%
Market rent/unit/mo	$2,636		$2,761
Market vacancy/loss	5%		5%
Op Ex & Cap Reserves /unit/mo	$700		$700
NOI/unit/yr	$19,846	$1,240	$21,086
NOI/gsf/yr	$18.24		$19.38
NOI/nsf/yr	$21.46		$22.80
Capitalization rate	5.00%		5.00%
bps spread	1.75%		1.75%
Target yield	6.75%		6.75%
Development yield	6.35%		6.75%
Supported investment	25.00%		25.00%
Building value/unit	$396,921		$421,716
Building value/gsf	$364.74		$387.52
Building value/nsf	$429.10		$455.91
Residual value/unit	$6,443		$31,238
Residual value/gsf	$6		$29
Available for public benefits/gsf	($23)		0

High-rise Residential 90' (6 stories residential, 20' podium), Underground Parking

Development Program	Actual		Threshold
Gross sq ft residential	162,000		162,000
Net sq ft per unit	925		925
Efficiency ratio	85%		85%
Gross sq ft per unit	1,088		1,088
Total units	149		149
Market rate units	130		130
MPDU	19		19
Parking ratio market	1.5		1.5
Parking ratio MPDU	1		1
Parking spaces	214		214
Parking cost/space	$28,000		$28,000
Parking cost/unit	$40,215		$40,215
Parking cost/net sq ft	$43		$43
Parking cost/gross sq ft	$37		$37
Hard costs (excl. parking)/gsf	$185		$185
Soft costs/gsf	$65		$65
Soft costs as % hard	35%		35%
Parking costs/gsf	$37		$37
Total development costs/gsf	$287		$287
Total development costs/unit	$311,719		$311,719
MPDU rent/unit/mo	$1,305		$1,305
MPDU vacancy/loss	0%		0%
Market rent/unit/mo	$2,597		$2,759
Market vacancy/loss	5%		5%
Op Ex & Cap Reserves /unit/mo	$700		$700
NOI/unit/yr	$19,425	$1,616	$21,041
NOI/gsf/yr	$17.85		$19.33
NOI/nsf/yr	$21.00		$22.75
Capitalization rate	5.00%		5.00%
bps spread	1.75%		1.75%
Target yield	6.75%		6.75%
Development yield	6.23%		6.75%
Supported investment	25.00%		25.00%
Building value/unit	$388,491		$420,820
Building value/gsf	$356.99		$386.70
Building value/nsf	$419.99		$454.94
Residual value/unit	($1,157)		$31,172
Residual value/gsf	($1)		$29
Available for public benefits/gsf	($30)		0

In-line retail portion, High-rise, Underground Parking

Development Program	Actual	Threshold
Gross sq ft in-line retail	32,000	32,000
Net sq ft in-line retail	32,000	32,000
Efficiency ratio	100%	100%
Parking ratio	4	4
Parking spaces	128	128
Parking cost/space	$28,000	$28,000
Parking cost/net sq ft	$112	$112
Parking cost/gross sq ft	$112	$112
Hard costs (excl. parking)/gsf	$110	$110
TI Allowance	$75	$75
Soft costs/gsf	$67	$67
Soft costs as % hard+parking	30%	30%
Parking costs/gsf	$112	$112
Total development costs/gsf	$364	$364
Total development costs/nsf	$364	$364
In-line retail rent/yr (NNN)	$52	$31.86
Vacancy/loss	5%	5%
Non-reimbursable op ex/gsf/yr	$3	$3
NOI/gsf/yr	$46.40	$27.27
NOI/nsf/yr	$46.40	$27.27
Capitalization rate	5.75%	5.75%
bps spread	1.75%	1.75%
Target yield	7.50%	7.50%
Development yield	12.76%	7.50%
Supported investment	25.00%	25.00%
Building value/gsf	$806.96	$474.26
Residual value/gsf	$352.46	$19.76
Available for public benefits/gsf	$332.70	$0.00

Grocery/Anchor portion, High-rise, Underground parking

Development Program	Actual	Threshold
Gross sq ft in-line retail	54,000	54,000
Net sq ft in-line retail	54,000	54,000
Efficiency ratio	100%	100%
Parking ratio	4	4
Parking spaces	216	216
Parking cost/space	$28,000	$28,000
Parking cost/net sq ft	$112	$112
Parking cost/gross sq ft	$112	$112
Hard costs (excl. parking)/gsf	$110	$110
TI Allowance	$25	$25
Soft costs/gsf	$67	$67
Soft costs as % hard+parking	30%	30%
Parking costs/gsf	$112	$112
Total development costs/gsf	$314	$314
Total development costs/nsf	$314	$314
Grocery rent/yr (NNN)	$32	$27.30
Vacancy/loss	0%	0%
Non-reimbursable op ex/gsf/yr	$3	$3
NOI/gsf/yr	$29.00	$24.30
NOI/nsf/yr	$29.00	$24.30
Capitalization rate	6.00%	6.00%
bps spread	1.75%	1.75%
Target yield	7.75%	7.75%
Development yield	9.25%	7.75%
Supported investment	25.00%	25.00%
Building value/gsf	$483.33	$405.07
Residual value/gsf	$91.33	$13.07
Available for public benefits/gsf	$78.27	$0.00

BOZZUTO
DEVELOPMENT
Founded on Values. Built on Integrity.

Bozzuto Development Company
Schematic Product and Construction Types
Chevy Chase Lake
October 2012

Multifamily Product	Average Density Units / Acre	IBC Construction Type	Applicable Materials	Building Height Limit	Stories Allowed	Notes
Garden **4 Story Donut** **4 Story over 1 Podium**	24 50 100	**VA**	Standard wood	**up to 70'** depending on 13R or 13 sprinkler systems	**4**	can also do 3 story type Va
5 Story **5 Story Donut** **5 Story over 1 Podium**	35 65 115	**III A or B**	Exterior: non-comubsitble including fire retardant treated wood	**up to 85'** depending on IIIA or IIIB	**5**	depends on levels of parking and use of podium
Hybrid	150+	**IIB**	concrete, steel, metal studs (proprietary systems)	**95' +/-**	**8**	if used with a transfer slab, 7 stories is generally the limit
High Rise	150+	**I A or B**	concrete, steel, metal studs	**Unlimited**	**14+**	code will limit height

IN THIS ISSUE:

Multihousing Suburban Eastern Region

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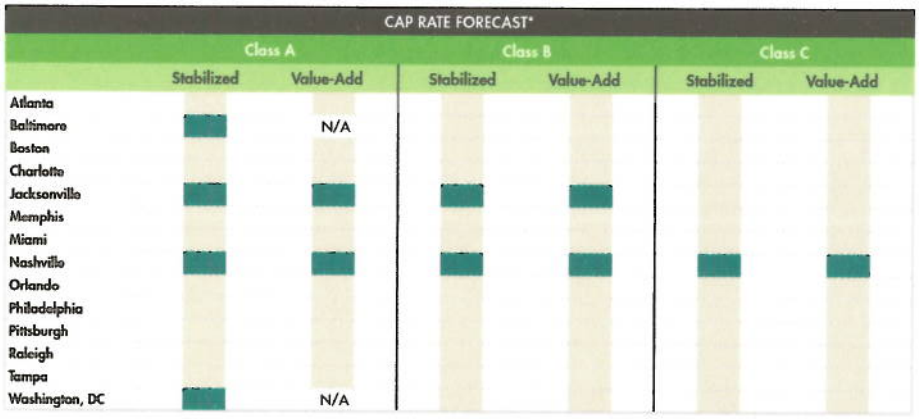
	Class A		Class B		Class C	
	Stabilized	Value-Add	Stabilized	Value-Add	Stabilized	Value-Add
Atlanta	5.25% - 5.75%	5.50% - 6.00%	5.75% - 6.25%	6.25% - 6.75%	7.25% - 7.75%	8.25% - 8.75%
Baltimore	4.50% - 5.00%	4.75% - 5.25%	5.75% - 6.25%	6.00% - 6.50%	6.50% - 7.00%	7.25% - 7.75%
Boston	4.25% - 5.25%	4.50% - 5.25%	5.25% - 5.50%	4.75% - 5.50%	6.50% - 6.75%	6.50% - 7.00%
Charlotte	5.00% - 5.50%	5.50% - 6.00%	5.50% - 6.00%	6.00% - 6.50%	7.00% - 7.50%	7.50% - 8.00%
Jacksonville	5.25% - 5.65%	6.00% - 6.50%	6.00% - 6.30%	7.00% - 7.25%	7.00% - 7.50%	9.25% - 9.75%
Memphis	5.75% - 6.50%	5.75% - 6.75%	6.75% - 7.75%	6.75% - 7.75%	9.00% +	9.00% +
Miami	4.50% - 4.75%	5.00% - 5.25%	5.00% - 5.50%	5.50% - 6.00%	6.25% - 6.75%	6.50% - 7.00%
Nashville	5.50% - 6.00%	5.75% - 6.25%	6.00% - 6.50%	6.50% - 7.00%	7.00% - 7.50%	7.50% - 8.00%
Orlando	5.00% - 5.75%	6.00% - 6.75%	5.75% - 6.50%	6.75% - 7.25%	6.50% - 7.50%	7.25% - 8.25%
Philadelphia	5.00% - 5.50%	5.00% - 5.50%	6.00% - 6.50%	6.25% - 6.75%	7.00% - 7.50%	7.50% - 8.00%
Pittsburgh	6.00% - 6.50%	6.50% - 7.00%	6.50% - 7.00%	7.00% - 7.50%	8.00% - 8.50%	8.50% - 9.00%
Raleigh	4.75% - 6.00%	6.00% - 6.50%	5.75% - 6.75%	6.75% - 7.50%	7.75% - 9.75%	9.75% - 10.50%
Tampa	5.25% - 5.75%	5.50% - 6.0%	5.75% - 6.25%	6.00% - 6.5%	6.25% - 6.75%	6.75% - 7.25%
Washington, DC	4.25% - 4.75%	4.50% - 5.00%	5.50% - 6.00%	6.00% - 6.50%	6.50% - 7.00%	7.25% - 7.75%

CAP RATE FORECAST*



* Cap Rate Forecast represents the CBRE professional's opinion of where cap rates are likely to trend in 1st half of 2013 in their local market.

CBRE

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CAP RATE SURVEY

Retail Neighborhood/Community Center (Grocery Anchored) | Current Cap Rates

FEBRUARY 2013

		Class A		Class B		Class C	
		Stabilized	Trend*	Stabilized	Trend*	Stabilized	Trend*
EAST	Atlanta	5.20% - 7.00%	↓	7.00% - 8.25%	↓	8.25% - 9.50%	↓
	Baltimore	5.50% - 6.50%	↔	6.00% - 7.50%	↓	7.00% - 9.50%	↓
	Boston	5.50% - 6.25%	↔	7.00% - 7.50%	↔	8.00% - 9.00%	↓
	Charlotte	6.75% - 7.25%	↔	7.75% - 8.75%	↑	8.50% - 9.50%	↓
	Jacksonville	6.50% - 7.00%	↔	7.25% - 7.75%	↔	8.00% - 11.00%	↔
	Memphis	7.75% - 8.25%	↔	8.50% - 9.00%	↔	10.00% - 11.00%	↔
	Miami	5.50% - 6.25%	↔	6.50% - 7.25%	↔	8.00% - 9.00%	↔
	Nashville	7.00% - 7.50%	↔	8.00% - 8.50%	↓	9.00% - 9.50%	↓
	Orlando	6.50% - 7.00%	↔	7.25% - 7.75%	↔	8.00% - 11.00%	↔
	Philadelphia	7.00% - 7.25%	↔	8.00% - 8.50%	↔	9.00% - 10.50%	↔
	Pittsburgh	6.50% - 7.25%	↓	8.25% - 9.25%	↔	9.50% - 10.50%	↔
	Raleigh	6.00% - 7.25%	↑	7.00% - 8.75%	↑	8.00% - 9.50%	↓
	Tampa	6.50% - 7.00%	↓	7.25% - 7.75%	↓	8.00% - 11.00%	↓
	Washington, DC	5.50% - 6.50%	↔	6.00% - 7.50%	↓	7.00% - 9.50%	↓
CENTRAL	Austin	6.00% - 6.25%	↔	7.00% - 7.25%	↓	9.50% - 9.75%	↑
	Chicago	5.75% - 6.25%	↓	7.50% - 8.00%	↔	9.00% - 10.50%	↑
	Cincinnati	7.50% - 8.25%	↑	8.50% - 9.00%	↓	9.00% - 10.00%	↓
	Cleveland	7.00% - 7.50%	↓	8.25% - 8.75%	↔	10.00% - 12.00%	↑
	Columbus	6.50% - 7.00%	↓	7.75% - 8.25%	↓	9.50% - 10.50%	↓
	Dallas	5.75% - 6.75%	↔	7.25% - 8.00%	↔	8.50% - 9.75%	↓
	Detroit	7.00% - 7.50%	↓	8.25% - 8.75%	↓	10.00% - 12.00%	↓
	Houston	5.50% - 7.00%	↔	7.00% - 8.75%	↔	9.00% - 12.00%	↑
	Indianapolis	6.50% - 7.00%	↓	7.75% - 8.25%	↓	9.50% - 10.50%	↑
	Kansas City	6.50% - 7.00%	↓	7.75% - 8.25%	↓	9.50% - 10.50%	↔
	Minneapolis	5.75% - 6.25%	↓	7.50% - 8.00%	↑	9.00% - 10.50%	↑
	San Antonio	6.00% - 7.25%	↔	7.50% - 8.75%	↔	9.00% - 12.00%	↑
	St. Louis	6.50% - 7.00%	↓	7.75% - 8.25%	↓	9.50% - 10.50%	↔
WEST	Albuquerque	7.50% - 8.50%	↓	8.00% - 9.00%	↓	9.00% - 10.00%	↓
	Denver	6.50% - 7.00%	↑	7.50% - 8.00%	↑	9.00% - 9.50%	↑
	Las Vegas	6.50% - 7.50%	↔	7.00% - 8.00%	↓	7.50% - 10.00%	↓
	Los Angeles	5.25% - 5.75%	↓	6.25% - 6.75%	↔	8.00% - 8.75%	↑
	Orange County	5.25% - 5.75%	↔	6.25% - 6.75%	↔	8.00% - 8.75%	↑
	Phoenix	5.75% - 6.25%	↓	6.50% - 7.00%	↔	8.00% - 9.00%	↔
	Portland	5.50% - 6.25%	↓	6.75% - 7.75%	↓	8.00% - 10.00%	↑
	Sacramento	7.00% - 8.00%	↓	8.00% - 9.00%	↓	9.00% +	↔
	Salt Lake City	7.50% - 8.20%	↑	8.20% - 8.60%	↔	9.00% - 10.00%	↑
	San Diego	5.25% - 5.75%	↔	6.25% - 6.75%	↔	8.00% - 8.75%	↑
	San Francisco	4.50% - 5.25%	↓	6.00% - 6.75%	↓	7.25% - 7.75%	↓
	San Jose	6.00% - 6.75%	↔	7.00% - 7.75%	↔	7.75% - 9.00%	↓
	Seattle	5.50% - 5.75%	↓	6.50% - 7.50%	↑	7.50% - 9.50%	↔

* Compared to 1st Half of 2012

CBRE

IN THIS ISSUE:

High Street Retail | National

<< | >>

	Class A	
	Stabilized	Trend*
Boston	3.75% - 5.00%	↔
Chicago	5.00% - 5.50%	↑
Los Angeles	4.50% - 5.50%	↑
Manhattan	4.00% - 5.00%	↓
Miami	4.00% - 6.00%	↑
Philadelphia	5.75% - 6.25%	↔
San Francisco	4.50% - 5.50%	↑
Seattle	4.50% - 5.50%	↑
Washington, DC	5.50% - 6.00%	↑

* Compared to 1st half 2012

CAP RATE FORECAST*

	Class A
	Stabilized
Boston	
Chicago	
Los Angeles	
Manhattan	
Miami	
Philadelphia	
San Francisco	
Seattle	
Washington, DC	

Decrease
Remain Flat
Increase

* Cap Rate Forecast represents the CBRE professional's opinion of where cap rates are likely to trend in 1st half of 2013 in their local market.

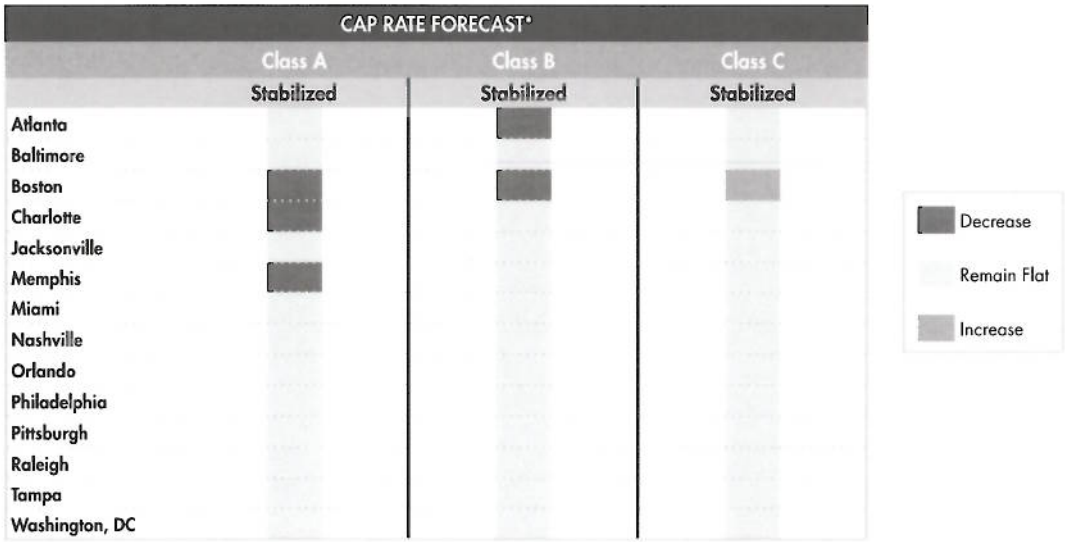
IN THIS ISSUE:

Retail Neighborhood/Community Center (Grocery Anchored) | Eastern Region

<< | >>

	Class A		Class B		Class C	
	Stabilized	Trend*	Stabilized	Trend*	Stabilized	Trend*
Atlanta	5.20% - 7.00%	↓	7.00% - 8.25%	↓	8.25% - 9.50%	↓
Baltimore	5.50% - 6.50%	↔	6.00% - 7.50%	↓	7.00% - 9.50%	↓
Boston	5.50% - 6.25%	↔	7.00% - 7.50%	↔	8.00% - 9.00%	↓
Charlotte	6.75% - 7.25%	↔	7.75% - 8.75%	↑	8.50% - 9.50%	↓
Jacksonville	6.50% - 7.00%	↔	7.25% - 7.75%	↔	8.00% - 11.00%	↔
Memphis	7.75% - 8.25%	↔	8.50% - 9.00%	↔	10.00% - 11.00%	↔
Miami	5.50% - 6.25%	↔	6.50% - 7.25%	↔	8.00% - 9.00%	↔
Nashville	7.00% - 7.50%	↔	8.00% - 8.50%	↓	9.00% - 9.50%	↓
Orlando	6.50% - 7.00%	↔	7.25% - 7.75%	↔	8.00% - 11.00%	↔
Philadelphia	7.00% - 7.25%	↔	8.00% - 8.50%	↔	9.00% - 10.50%	↔
Pittsburgh	6.50% - 7.25%	↓	8.25% - 9.25%	↔	9.50% - 10.50%	↔
Raleigh	6.00% - 7.25%	↑	7.00% - 8.75%	↑	8.00% - 9.50%	↓
Tampa	6.50% - 7.00%	↓	7.25% - 7.75%	↓	8.00% - 11.00%	↓
Washington, DC	5.50% - 6.50%	↔	6.00% - 7.50%	↓	7.00% - 9.50%	↓

* Compared to 1st half 2012



* Cap Rate Forecast represents the CBRE professional's opinion of where cap rates are likely to trend in 1st half of 2013 in their local market.

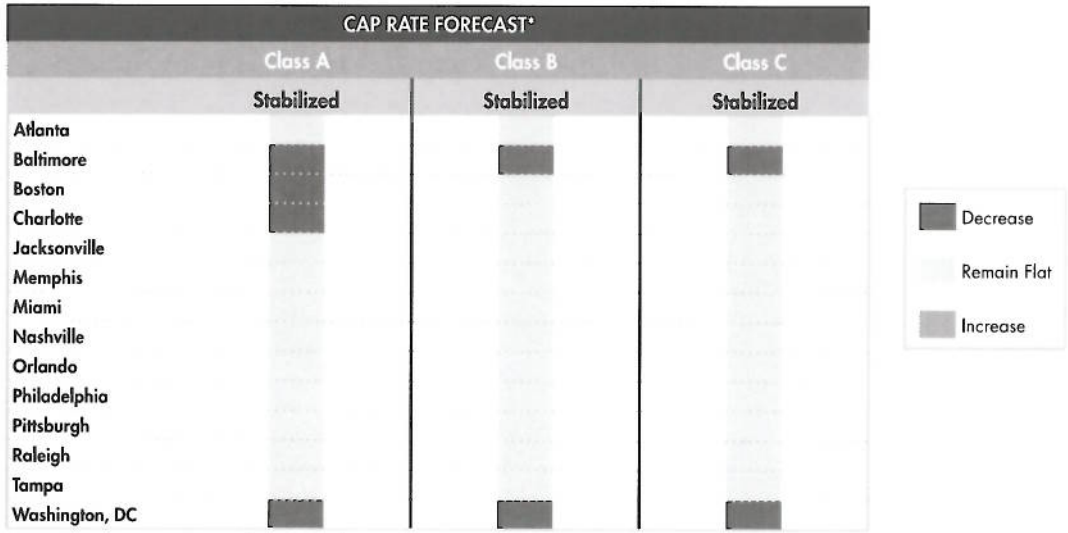
IN THIS ISSUE:

Retail Power Center | Eastern Region

<< | >>

	Class A		Class B		Class C	
	Stabilized	Trend*	Stabilized	Trend*	Stabilized	Trend*
Atlanta	7.25% - 7.75%	↓	8.00% - 9.00%	↔	10.00% - 12.00%	↑
Baltimore	6.75% - 8.00%	↑	7.50% - 8.50%	↔	8.00% - 10.00%	↓
Boston	6.50% - 7.00%	↔	7.25% - 8.00%	↑	8.00% - 9.50%	↔
Charlotte	7.00% - 7.50%	↓	8.00% - 8.75%	↑	9.00% - 10.00%	↑
Jacksonville	7.00% - 7.50%	↔	7.50% - 8.25%	↔	8.00% - 11.00%	↔
Memphis	8.25% - 8.50%	↔	8.75% - 9.75%	↑	9.50% - 11.50%	↑
Miami	6.50% - 7.25%	↔	7.00% - 7.75%	↔	N/A	N/A
Nashville	7.00% - 7.50%	↓	8.00% - 8.50%	↓	9.00% - 9.50%	↓
Orlando	7.00% - 7.50%	↔	7.50% - 8.25%	↔	8.00% - 11.00%	↔
Philadelphia	7.00% - 7.25%	↔	8.00% - 8.50%	↔	9.00% - 10.50%	↔
Pittsburgh	7.50% - 8.00%	↔	9.00% - 10.00%	↓	10.00% - 11.00%	↔
Raleigh	6.50% - 7.50%	↓	7.50% - 8.75%	↑	8.50% - 10.00%	↑
Tampa	7.00% - 7.50%	↓	7.50% - 8.25%	↓	8.00% - 11.00%	N/A
Washington, DC	6.75% - 8.00%	↑	7.50% - 8.50%	↔	8.00% - 10.00%	↓

* Compared to 1st half 2012



* Cap Rate Forecast represents the CBRE professional's opinion of where cap rates are likely to trend in 1st half of 2013 in their local market.

CAP RATE SURVEY

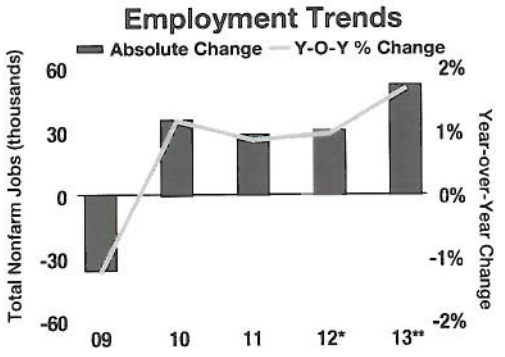
Office Suburban | Current Cap Rates

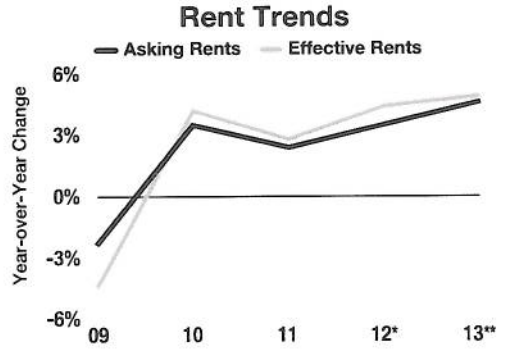
FEBRUARY 2013

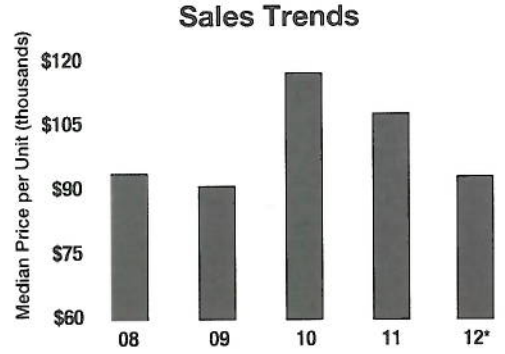
		Class A				Class B				Class C			
		Stabilized	Trend*	Value-Add	Trend*	Stabilized	Trend*	Value-Add	Trend*	Stabilized	Trend*	Value-Add	Trend*
EAST	Atlanta	6.50% - 7.50%	↔	7.50% - 8.25%	↔	7.50% - 8.75%	↔	8.50% - 9.00%	↔	9.00% - 10.50%	↓	10.50% - 12.00%	↔
	Baltimore	7.00% - 7.25%	↔	9.00%	↑	8.50% - 9.25%	↑	10.00%	↑	10.00%	↑	12.00%	↑
	Boston	5.75% - 6.25%	↓	6.75% - 7.25%	↓	6.50% - 7.00%	↓	8.00% - 8.50%	↓	7.50% - 8.00%	↓	10.00% - 11.00%	↑
	Charlotte	7.00% - 7.50%	↓	7.50% - 8.00%	↓	7.75% - 8.25%	↓	9.00% - 10.00%	↑	9.50% - 10.50%	↓	10.50% - 12.50%	↓
	Jacksonville	7.25% - 8.00%	↓	8.50% - 9.00%	↓	9.00% - 10.00%	↓	9.50% - 10.50%	↓	10.00% +	↓	10.00% +	↓
	Memphis	7.75% - 8.25%	↔	8.50% - 9.00%	↔	8.75% - 9.25%	↔	9.00% - 10.00%	↔	9.00% - 10.00%	↔	11.00% - 12.00%	↔
	Miami	6.00% - 7.00%	↓	7.00% - 8.00%	↓	7.25% - 8.50%	↓	8.25% - 9.50%	↓	8.00% - 9.00%	↓	9.00% - 11.00%	↓
	Nashville	6.75% - 7.50%	↓	7.50% - 7.75%	↓	8.25% - 8.75%	↓	9.00% - 9.50%	↓	9.50% - 10.50%	↓	10.00% - 10.75%	↓
	Orlando	7.50% - 8.50%	↑	8.00% - 8.50%	↓	8.50% - 9.50%	↑	9.00% - 10.00%	↑	10.00% - 11.00%	↑	10.00% - 12.00%	↑
	Philadelphia	7.50% - 7.75%	↔	8.00% - 9.00%	↔	8.50% - 9.00%	↔	9.50% - 10.00%	↔	9.00% - 9.50%	↔	10.00% - 10.50%	↔
	Pittsburgh	7.50% - 8.00%	↔	8.00% - 8.50%	↔	8.50% - 9.00%	↔	9.00% - 10.00%	↔	11.00% - 12.00%	↔	12.00% - 13.00%	↑
	Raleigh	6.50% - 7.50%	↓	8.00% - 8.50%	↔	8.50% - 9.00%	↑	9.00% - 9.50%	↔	9.00% - 10.00%	↔	9.50% - 10.50%	↓
	Tampa	7.00% - 8.00%	↔	8.00% - 9.00%	↔	8.00% - 9.00%	↔	8.75% - 9.50%	↔	9.25% - 10.25%	↔	10.00% - 12.00%	↔
	Washington, DC	5.75% - 7.00%	↑	6.50% - 7.50%	↑	6.50% - 8.00%	↑	8.00% - 8.50%	↑	8.50% - 10.00%	↑	9.50% - 10.50%	↓
CENTRAL	Austin	6.50% - 6.75%	↓	7.00% - 7.25%	↓	7.75% - 8.00%	↓	8.25% - 8.50%	↔	9.25% - 9.50%	↓	9.75% - 10.00%	↓
	Chicago	7.25% - 7.75%	↓	9.00% - 10.00%	↑	8.00% - 9.50%	↔	10.00% - 11.00%	↑	11.25% - 13.25%	↑	14.00% - 15.00%	↑
	Cincinnati	8.00% - 8.50%	↔	8.50% - 9.00%	↔	9.00% - 9.50%	↓	9.50% - 10.50%	↔	10.50% - 11.50%	↔	11.00% - 12.50%	↔
	Columbus	7.50% - 8.00%	↓	8.50% - 9.50%	↑	8.50% - 10.00%	↓	9.50% - 10.50%	↑	10.50% - 12.50%	↔	11.00% - 13.00%	↑
	Dallas	6.50% - 8.00%	↔	7.00% - 8.00%	↓	7.50% - 9.00%	↓	8.00% - 9.00%	↓	8.75% - 10.00%	↓	10.00% - 12.00%	↑
	Detroit	8.75% - 10.00%	↔	10.00% - 12.00%	↔	9.50% - 12.00%	↓	10.00% - 14.00%	↔	10.00% - 14.00%	↑	12.00% - 15.00%	↔
	Houston	6.00% - 6.50%	↓	7.50% - 8.00%	↔	7.50% - 8.50%	↔	9.00% - 10.00%	↑	8.50% - 10.00%	↓	12.00% - 14.00%	↑
	Indianapolis	8.00% - 9.00%	↓	8.50% - 9.50%	↓	8.50% - 9.50%	↓	9.00% - 10.00%	↓	9.00% - 10.00%	↓	9.50% - 10.50%	↓
	Kansas City	7.25% - 7.75%	↓	9.00% - 10.00%	↔	8.50% - 9.50%	↓	10.00% - 11.00%	↑	10.00% - 11.00%	↔	12.00% +	↑
	Minneapolis	6.50% - 8.25%	↔	8.00% - 9.00%	↔	8.75% - 9.75%	↔	9.75% - 10.75%	↔	10.00% - 12.00%	↑	12.00% - 13.00%	↑
	San Antonio	6.75% - 7.50%	↓	7.75% - 8.50%	↔	8.00% - 9.00%	↓	8.50% - 9.50%	↓	10.00% - 11.00%	↓	10.50% - 11.50%	↓
	St. Louis	8.25% - 8.75%	↑	8.50% - 9.50%	↓	9.25% - 9.75%	↓	9.75% - 10.50%	↓	10.00% - 12.00%	↓	12.00% - 15.00%	↔
WEST	Albuquerque	8.00% - 8.50%	↔	9.00% - 10.00%	↑	8.50% - 9.25%	↔	10.50% - 11.50%	↑	9.50% - 11.00%	↑	12.00% - 14.00%	↑
	Denver	6.50% - 7.00%	↔	7.50% - 8.00%	↔	7.50% - 8.00%	↓	8.00% - 8.50%	↓	9.50% - 10.00%	↑	10.00% - 11.00%	↓
	Las Vegas	7.00% - 8.00%	↓	7.00% - 9.50%	↔	8.00% - 9.00%	↔	8.75% - 10.50%	↔	9.00% - 10.00%	↑	9.00% - 11.00%	↔
	Los Angeles	5.00% - 5.50%	↓	6.00% - 6.50%	↓	6.50% - 7.25%	↓	6.50% - 8.00%	↓	7.50% - 8.50%	↓	8.00% - 10.00%	↓
	Orange County	5.75% - 6.25%	↓	6.75% - 7.50%	↓	7.00% - 8.00%	↓	8.25% - 9.00%	↓	9.00% - 9.75%	↓	9.25% - 10.50%	↓
	Phoenix	6.50% - 7.25%	↔	7.50% - 8.25%	↔	7.50% - 8.25%	↔	8.50% - 9.25%	↔	10.00% - 11.00%	↑	11.00% - 13.00%	↑
	Portland	7.25% - 8.25%	↔	7.75% - 8.75%	↔	8.00% - 9.00%	↔	8.50% - 9.50%	↔	8.75% - 9.75%	↔	9.50% - 10.75%	↔
	Sacramento	7.50% - 8.50%	↓	7.75% - 9.00%	↓	8.50% - 9.50%	↓	8.75% - 10.00%	↓	9.50% - 11.00%	↑	12.00% - 14.00%	↑
	Salt Lake City	7.00% - 8.00%	↓	7.50% - 8.50%	↓	7.00% - 8.50%	↓	7.50% - 9.50%	↔	8.00% - 10.00%	↔	9.00% - 11.00%	↔
	San Diego	5.75% - 6.25%	↓	6.25% - 6.75%	↓	7.00% - 7.50%	↔	7.50% - 8.00%	↔	8.00% - 8.50%	↑	8.50% - 9.00%	↑
	San Francisco	6.00% - 7.00%	↑	6.50% - 7.50%	↑	6.75% - 7.50%	↑	7.00% - 7.50%	↔	7.00% - 8.00%	↑	7.50% - 8.25%	↔
	San Jose	7.00% - 8.00%	↑	7.50% - 8.50%	↑	7.50% - 8.00%	↑	8.00% - 8.50%	↑	8.00% - 9.00%	↔	8.25% - 9.50%	↔
	Seattle	6.00% - 6.50%	↑	6.00% - 8.00%	↔	6.50% - 7.50%	↔	7.00% - 8.00%	↔	7.50% - 9.00%	↔	9.00% - 10.00%	↔

* Compared to 1st Half 2012

CBRE







*Estimate **Forecast
Sources: CoStar Group, Inc., RCA

New Construction Cycle Heats Up, Vacancies Stable as Hiring Surge Supports Demand

The Washington, D.C., metro faces the start of a significant building cycle that will span at least three years. Roughly 1,500 units are slated for completion in the district this year, representing a significant 1.7 percent increase in stock. The district remains a prime destination for young households, however, and absorption will keep pace with completions, leaving vacancy unchanged in 2013 at 4.5 percent. Most of the 2,000 apartments scheduled for delivery in Maryland will come online in the year's second half, offsetting solid demand and impacting year-end vacancy more greatly than other areas. For the year, vacancy will rise 40 basis points to a still-tight 4.4 percent. Apartment stock in Virginia will grow 1.5 percent during the year, but the lure of the for-sale market will affect demand, pushing vacancy 10 basis points higher to 3.6 percent.

Despite the buildup of stock following a lull during the recession, investors appear firmly committed to the market's long-term growth prospects and continue to add to portfolios. Attractive acquisition financing is enabling deals in Dupont Circle to execute at cap rates between 5 and 6 percent, while assets in Adams Morgan trade about 100 basis points higher. Distinctions in asset quality and location remain in place, with properties in transitional neighborhoods and away from public transportation garnering more tepid interest. Outside of the district, areas of Fairfax, Loudoun and Montgomery Counties remain the domain of institutions, with large, best-in-class assets in these areas commanding cap rates of 5 percent or less.

2013 Market Outlook

- **2013 NAI Rank: 17, Down 8 Places.** Stronger forecasts in peer markets, together with the weaker vacancy and job growth trends, contributed to Washington, D.C.'s drop in the index.
- **Employment Forecast:** Local hiring shifts into a higher gear in 2013 with the addition of 51,200 jobs, surpassing the 30,000 new hires made in 2012. Job gains this year will expand total employment 1.7 percent.
- **Construction Forecast:** After delivering 4,500 rentals last year, production will jump to 6,000 units in 2013. The total includes 2,500 units in Virginia.
- **Vacancy Forecast:** Completions will exceed net absorption, leading to a 20-basis point rise in vacancy to 4.1 percent in 2013. The vacancy rate declined for the third consecutive year in 2012, dropping 30 basis points.
- **Rent Forecast:** Tight vacancy will support a 4.6 percent rise in asking rents to $1,527 per month this year and an increase in effective rents of 4.9 percent to $1,465 per month. Asking and effective rents gained 3.5 percent and 4.4 percent, respectively, in 2012.
- **Investment Forecast:** Numerous lenders continue to compete vigorously for business in the district and will sustain healthy sales volume and low cap rates.

Market Forecast Employment: 1.7% ▲ Construction: 1,500▲ Vacancy: 20 bps ▲ Effective Rents: 4.9% ▲

MONTGOMERY COUNTY COUNCIL
ROCKVILLE, MARYLAND

ROGER BERLINER
COUNCILMEMBER
DISTRICT 1

CHAIRMAN
TRANSPORTATION, INFRASTRUCTURE
ENERGY & ENVIRONMENT COMMITTEE

MEMORANDUM

June 27, 2013

TO: Marlene Michaelson
Jacob Sesker

FROM: Roger Berliner, Councilmember
Montgomery County Council

SUBJECT: Chevy Chase Lake Sector Plan

As the district councilmember, I am acutely aware of the concerns of the surrounding communities that will be most directly affected by adoption of the proposed Chevy Chase Lake Sector Plan. Regrettably, at this point in time, even after the PHED Committee's deliberations, in the absence of further analysis, I am not comfortable with my ability to address some of the most fundamental issues raised by the community. Accordingly, I am requesting your assistance in this regard.

Perhaps most fundamental is the set of issues surrounding the Planning Staff's draft proposal for the redevelopment of the shopping center (Phase 1). It is clear that the community believes that the Planning Staff draft more reasonably reconciles the desire for a better development with the desire to retain the character and integrity of the neighborhood than either the Planning Board proposal or the PHED Committee recommendation. They ask why that staff draft is not still the preferred outcome.

As the chart on circle 1 of the PHED Committee June 17 staff packet makes clear, the major difference between the Planning Board Majority and staff recommendations is the height – not the densities – of the Chevy Chase Lake shopping center. The staff draft would have had it at 90 feet; the Planning Minority was at 120 feet; while the Planning Majority was at 150 feet.

I have been told that the Planning Board concluded that the staff draft was not economically feasible at 90 feet, and that the Chevy Chase Land Co. would not proceed on that basis. However, I have not seen any economic analysis to date that demonstrates that the staff recommendation for 90 feet at this site is not economically feasible.

This question is central to consideration of this plan. For example, if it is indeed true that the staff draft is not economically feasible, then the choice in a sense is between the 2005 previously approved plan and the recommendations of heights of 120 feet or higher on the shopping center site. There are a series of trade offs that such a choice creates – but you don't even get to that level of analysis without first having thoroughly evaluated the merits of Planning Staff proposal.

In addition to an economic analysis of this site, we must be able to articulate the impact the various options would have on achieving the public policy objectives of the plan. These options would appear to be allowing the 2005 plan to go forward, adopting the Planning Staff draft, adopting the PHED Committee recommendation, or the Planning Board recommendation.

Finally, during my attendance at the PHED Committee work sessions, I do not recall a discussion of the full range of public amenities that are expected or desired in the plan. I would be grateful if you could provide a more detailed summary and analysis of these expected public benefits and whether you believe we have maximized what we should expect in the context of this redevelopment proposal.

I know that time is limited. The plan is scheduled to go before the Council on July 9th. Nonetheless, I would be most grateful if you can address these questions to the extent possible in order to provide me and the community I represent with a more complete analysis of the fundamental choices the Council is being asked to make.

cc: PHED Committee
Planning Board Chair Françoise Carrier